# PENSION FUND COMMITTEE – 06 SEPTEMBER 2024

# RESPONSIBLE INVESTMENT POLICY – MONITORING & REPORTING

**Report by Executive Director of Resources & Section 151 Officer**

## RECOMMENDATIONS

1. **The Committee is RECOMMENDED to:**

**a) agree the proposed set of Responsible Investment metrics and targets included at Annex 1; and**
**b) agree the inclusion of the wording in paragraphs 20 and 21 in the Fund's Responsible Investment Policy regarding the exclusion of tobacco holdings.**

## Introduction

c) At the June 2024 Pension Committee Meeting, the Committee resolved to agree the final version of the Responsible Investment Policy. With the Policy now being agreed the next step is for the Committee to agree a set of metrics and targets to measure progress.

d) Annex 1 provides a proposed set of metrics and targets that can be used to track progress and inform reporting against the objectives that have been set within the Responsible Investment Policy. In this way they can provide assurance that the Fund is on track to meet the objectives that have been agreed by the Committee.

## Responsible Investment Strategy

e) The Responsible Investment Policy is a high-level statement of the vision, investment beliefs, approach to integrating ESG into the investment process, and responsible investment priorities for the Fund. For each of the issue-related priorities in the Policy there is an associated objective the Fund is aiming to achieve. Tracking progress against these objectives is essential if stakeholders, including members and beneficiaries, are to be able to assess the extent to which the Fund is delivering against the commitments it has signed up to through the Responsible Investment Policy.

f) To be able to track progress and provide assurance that the Fund is on track to meet its responsible investment commitments it is important to have a set of robust metrics. Where possible, the metrics identified in Annex 1 have been selected because they are based on publicly available data provided by reliable sources. Brunel already provide us with a range of responsible investment data, particularly in relation to climate change, and we have used their metrics wherever we can as they have already been applied to our holdings to give a portfolio-level view.

g) Alongside each of the metrics there are also proposed targets, against which progress can be measured. Where possible the targets are timebound, including both medium- and long-term milestones. By their nature some of the targets are less specific than others. For example, nature risk assessment is an emergent area, with companies only just starting to engage with frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD), so setting a specific timebound target is not appropriate currently. As companies develop their capacity in this area it will be possible for more specific targets to be set.

h) There are potential issues to be aware of when setting targets. For example, we use Weighted Average Carbon Intensity (WACI) to help measure progress against our climate change commitments. The Taskforce on Carbon-related Financial Disclosure (TCFD) recommends that there should be a 7.6% year on year reduction in the WACI of our portfolios to align with the objective of reaching Net Zero by 2050. However, pursuing this target in isolation could lead to outcomes that will not help, and may in fact hinder, the energy transition required to get to Net Zero. The easiest way to reduce the WACI of our portfolios is to divest from manufacturing sector companies and only invest in low WACI sectors such as Software companies. However, as a fund we want to invest in companies building the new technologies such as heat pumps that will drive the energy transition, not reduce our exposure to them.

i) Where there is a risk that focussing on a single metric will not provide the required breadth and depth of data needed to track progress against an objective a range of metrics will be used. This is the case for climate change, where six different indicators have been identified to give a full picture of how the fund is performing in this key area. We feel that this is necessary in order to be able to adequately assess the extent to which climate change risk to long term returns is being managed.

j) Given the relative maturity of climate change as an issue there is a wider range of data available on this issue than for some of the other areas identified as priorities in the Responsible Investment policy. Our expectation is that over time more data will become available for these other issues as the market matures and moves to fill those data gaps. This is particularly the case for a relatively new and complex area such as nature.

k) As the data landscape develops officers will assess the case for either replacing or adding new metrics to help track progress. Given the evolving data picture there will need to be flexibility going forwards for new metrics and indicators to be adopted and if a metric is no longer best-suited for tracking progress for it to replaced. For this reason, the metrics proposed in Annex 1 are not intended to be set in stone once approved by the Committee, the expectation is that there will be changes but that where this does take place there is a clear justification to stakeholders for that change.

l) The metrics and indicators identified in Annex 1 have already been through an initial review process from a Committee sub-group made up of the Chair, Vice-Chair and officers.

m) Once the metrics have been approved officers will then develop a broader strategy for delivering the objectives. This will include stewardship activities such as company engagement, collaborative initiatives and public policy engagement. Given Brunel's role as our asset manager the expectation is that they will be carrying out most of these activities on behalf of the Fund. However, there is scope for the fund to contribute directly, particularly through collaborative engagements.

**Resourcing**

n) There are resourcing implications for the adoption of a set of metrics to track progress around the collection and application to the Fund's portfolios of that data. Where the data originates from Brunel there is a lower cost as the indicators have already been applied to Fund's portfolios and a portfolio-level calculation has been made. As noted above, where possible the metrics suggested are sourced from Brunel. However, Brunel data is not currently available for all the priorities and where there are gaps it will be necessary to fill those gaps with third party data sources.

o) The collection of this external data and the application of it to the fund's portfolios is a resource intensive process. It is proposed that the Fund seeks to engage an advisor to help provide support in this area. The advisor could also help to develop a user interface that makes the data accessible to stakeholders, e.g. via dashboards.

p) Officers will seek to deliver any additional support within the existing consultancy budget. Should costs be higher than the budget officers will first report back to Committee either during 2024/25 or as part of the 2025/26 budget setting process depending on timings.

q) Some data sources have fees associated, for example in relation to deforestation. These will also be sought to be delivered within the existing budget or reported to Committee if this is not feasible. It may be the case that other client funds and/or Brunel would be interested in purchasing this data on a shared basis, so the costs could potentially be shared.

**Tobacco Exclusion**

r) At the Pension Fund Committee on 7th June 2024 when reviewing the Responsible Investment Policy officers were asked to find suitable wording to include in the Policy to support an activity-based exclusion for tobacco holdings. Proposed wording is included in paragraphs 20 and 21 below.

s) Tobacco has significant negative social and economic impacts and is considered by health professionals to be a major preventable cause of death. It is estimated by the World Health Organisation that up to eight million people a year die from tobacco-related illnesses.

t) As a result, tobacco production companies are exposed to significant ongoing financial and reputational risks from increased regulation. Given both the risk profile and the negative impacts of tobacco products on health the Fund has implemented an activity-based exclusion for companies involved in the production of tobacco.

Lorna Baxter
Executive Director Resources and Section 151 Officer
August 2024